



Wednesday, 08 January 2025

KBC Sunrise Market Commentary

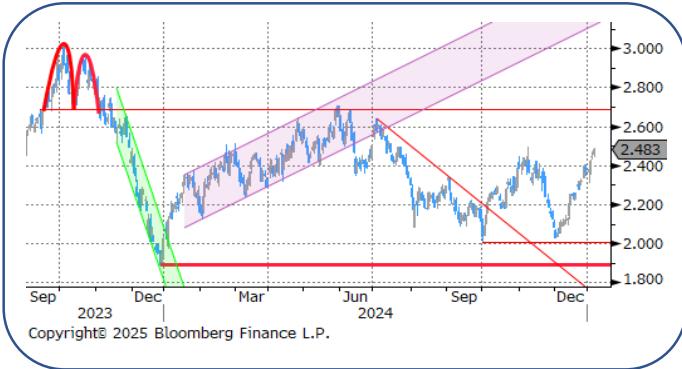
Markets

- Core bond yields extended their December surge with the **long end once again taking the lead**. A strong first batch of US economic data did the trick. November JOLTS job openings snapped back to above 8 million and a strong headline services ISM for December was coupled with a sharp rise in the prices paid subseries to the highest since March 2023. The US 2-yr yield added 1.7 bps with money markets gently pushing the next Fed cut further out in time to 2025H2. Yields in the 10-30-yr bucket rose 5.5-6.4 bps. The 10-yr tenor attacked the lower bound of the 4.68-4.73% resistance band. The \$39 bln 10-yr auction yesterday produced a minimal tail with a lower bid-cover than the previous ones. European rates joined the bear steepening move with changes between +0.2 (2-yr) to +5.4 bps (30-yr) in Germany. European CPI printed bang in line with expectations, 2.4% y/y and 2.7% y/y for headline and core respectively, and final December PMIs enjoyed some marginal upward revisions compared to the flash release. UK gilts underperformed strongly. Net daily changes varied between 3.8 (2-yr) and 7.3 (10-yr) bps. The 30-yr year added 6.7 bps to hit a new 27-yr high. The same-dated auction yesterday tailed slightly and drew the lowest demand since December 2023. **It suggests investor caution for upcoming bond supply after the Labour government's "one of the largest fiscal loosening in recent decades"** (dixit OBR) presented in October resulted in a near-record £297 bn of planned government bond sales this year. The UK serves as a reminder to other governments in Europe, the US and elsewhere of a fundamentally changed interest rate environment that isn't as forgiving for huge deficits and massive borrowing as the ZIRP/NIRP one. It's central in our view for structurally higher long-term bond yields. From a shorter-term point of view, today's economic calendar may further support the case as well with the **ADP job report and jobless claims scheduled for release in the US**. They come ahead of Friday's more important officials payrolls report. Assuming markets this early in the year are not eager to fully let go on some additional Fed easing in 2025 it is the long end that remains the most vulnerable. The modest dollar appreciation yesterday (EUR/USD 1.034, DXY 108.54) reveals that this does not necessarily supports the US currency. We think USD against G10 peers was in fact driven by the risk-off more than anything else. Additionally, the battered euro's downside is finally looking better protected. We feel a lot of negatives have been priced in by now. The bar for euro area money markets to price in more ECB easing (100 bps this year) is rising. EUR/USD is technically still in danger though with the recent low around 1.0226 acting as key support.

News & Views

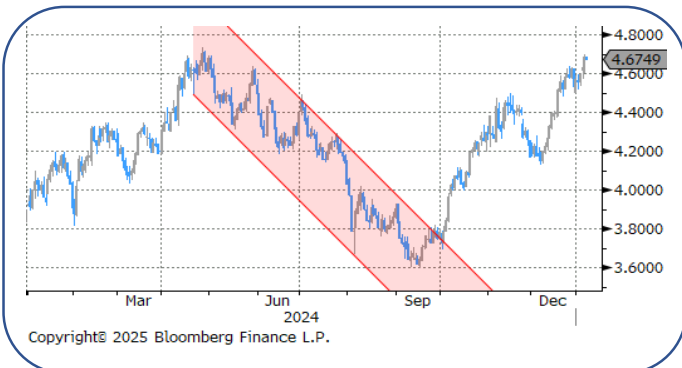
- Real Indian GDP growth for FY 2024-25 is estimated at 6.4%** compared to the 8.2% provisional estimate in FY 2023-24, the statistics ministry reported. The growth deceleration in the 2024-25 FY is **mainly due to a developing decline in government capital investments**. At the same time **private consumption expenditure is expected accelerate** from 4.0% to 7.3%. Government consumption also is seen rising from 2.5% to 4.1%. Real GVA of agriculture and allied sector has been estimated to grow by 3.8% during 2024-25 as compared to the growth of 1.4% witnessed in FY 2023-24. Real GVA of 'construction' and 'financial, real estate & professional services' has been estimated to observe good growth rates of 8.6% and 7.3%, respectively during the FY2024-25, the ministry Statement reported. The Indian rupee this morning is setting an all time record low against the dollar in the USD/INR 85.84 area.
- The Australian Bureau of statistics reported monthly CPI for November to have risen to 2.3% from 2.1% in October**. However, the head of ABS price statistics in a comment indicated that the rise was in part due to **timing of electricity rebates**. The underlying inflation figure showed a mixed picture. **The CPI excluding volatile items and holiday travel rose 2.8% in the 12 months to November**, compared to a 2.4% rise in the 12 months to October. This rise was also mainly driven by changes in electricity prices. Annual trimmed mean inflation was 3.2% in November, down from 3.5% in October. The latter is an important pointer in the RBA's inflation assessment and as such is **moving closer to the RBA's 2-3% inflation target**. The RBA has its first policy meeting on February 17-18. After holding its policy rate unchanged at 4.35% since November 2023, markets now see a chance of about **75% of an inaugural 25 bps rate cut in February**. The Ausie dollar, which has been under pressure from a strong US dollar of late, only showed a limited reaction to the data. At AUD/USD 0.6235, it trades close to recent lows (0.6180 area).

Graphs



GE 10y yield

The ECB delivered a fourth rate cut in December and dropped the reference to keeping policy restrictive. Inflation forecasts barely changed while the growth outlook deteriorated. Sticking with a data-dependent approach, **we think the ECB eyes 25 bps rate cuts in January and March** after which a proper evaluation on neutral interest rates is necessary. Money market positions remains too dovish. **The German 10-yr yield rebounded to recent highs in a steepening trend.**



US 10y yield

The Fed eased policy rates by 25 bps in December but added that **“the extent and timing”** of further cuts depend on incoming data. Updated rate forecasts above an upwardly revised neutral rate (3%) and higher inflation forecasts with risks firmly skewed to the upside complete the Fed’s hawkish twist. **Higher for longer is back** and lifted both the front and long end of the curve. The 10-yr yield is on track for a test of the YtD high at 4.73%.



EUR/USD

Solid October US data started an impressive USD comeback. Trump’s election victory later added to by default USD strength through fiscal and trade expectations. Money markets significantly reduced Fed rate cut bets as a result and saw their view validated by a hawkish central bank in December. **The dollar dominates.** The November correction low of 1.0335 was tested but survived for now.



EUR/GBP

The BoE’s hawkish cut in November was followed by a dovish hold in December where one of the status quo voters is close in switching sides. We think current market pricing of about two rate cuts in 2025 is too conservative. That’s making **both UK yields at the front end and sterling vulnerable** for downside eco data misses. EUR/GBP’s bottom around 0.823 looks a bit better protected.

Calendar & Table

Wednesday, 8 January		Consensus	Previous
US			
14:15	ADP Employment Change (Dec)	139k	146k
14:30	Initial Jobless Claims	215k	211k
14:30	Continuing Claims	1860k	1844k
20:00	FOMC Meeting Minutes		
Japan			
06:00	Consumer Confidence Index (Dec)	36.2A	36.4
EMU			
11:00	Services Confidence (Dec)	5.7	5.3
11:00	Industrial Confidence (Dec)	-11.6	-11.1
11:00	Economic Confidence (Dec)	95.6	95.8
11:00	PPI MoM/YoY (Nov)	1.50%/-1.40%	0.40%/-3.20%
Germany			
08:00	Retail Sales MoM/NSA YoY (Nov)	0.50%/2.50%	-0.30%R/5.10%R
08:00	Factory Orders MoM/WDA YoY (Nov)	-0.20%/3.00%	-1.50%/5.70%
France			
08:45	Consumer Confidence (Dec)	90	90
Sweden			
08:00	CPI MoM/YoY (Dec P)	0.20%/1.00%	0.30%/1.60%
08:00	CPIF MoM/YoY (Dec P)	0.40%/1.70%	0.50%/1.80%
08:00	CPIF Excl. Energy MoM/YoY (Dec P)	0.50%/2.20%	-0.20%/2.40%
Events			
18:30	ECB's Villeroy speaks in Paris		
14:30	Fed's Waller Gives Speech on Economic Outlook		
19:00	U.S. To Sell USD22 Bln 30-Year Bonds		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	4.69	0.05	US	4.29	0.02	DOW	42528.36	-178.20	
DE	2.48	0.04	DE	2.20	0.00	NASDAQ	19489.68	-375.30	
BE	3.07	0.04	BE	2.36	0.01	NIKKEI	39981.06	-102.24	
UK	4.68	0.07	UK	4.47	0.04	DAX	20340.57	124.38	
JP	1.18	0.04	JP	0.65	0.01	DJ euro-50	5011.82	25.18	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.32	4.14	4.22	€STR	2.9180	0.0010			
5y	2.36	4.15	4.14	Euribor-1	2.8400	0.0050	SOFR-1	4.3029	0.0021
10y	2.47	4.20	4.17	Euribor-3	2.7850	0.0280	SOFR-3	4.2935	0.0044
				Euribor-6	2.6310	0.0460	SOFR-6	4.2620	0.0089
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1.0340	-0.0050	EUR/JPY	163.42	-0.35	CRB	299.28	0.35	
USD/JPY	158.05	0.43	EUR/GBP	0.8288	-0.0011	Gold	2665.40	18.00	
GBP/USD	1.2477	-0.0043	EUR/CHF	0.9407	0.0008	Brent	77.05	0.75	
AUD/USD	0.623	-0.0016	EUR/SEK	11.498	0.0165				
USD/CAD	1.437	0.0038	EUR/NOK	11.7289	-0.0046				

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